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**FISCAL IMPACT STATEMENT**

**LS 7391**

**BILL NUMBER:** HB 1283

**NOTE PREPARED:** Feb 17, 2005

**BILL AMENDED:** Jan 24, 2005

**SUBJECT:** Property tax abatement.

**FIRST AUTHOR:** Rep. Borror

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:**     **GENERAL**  
                          **X DEDICATED**  
                          **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill permits a city, town, or county to approve property tax abatements for new manufacturing equipment, new research and development equipment, new logistical distribution equipment, or new information technology equipment anywhere within its jurisdiction instead of limiting those abatements to economic revitalization areas. It repeals the prohibition against approval of new tax abatements after December 31, 2005. The bill repeals the limitation of tax abatements for new logistical distribution equipment and new information technology equipment to certain counties located along Interstate Highway 69. It also makes conforming changes.

**Effective Date:** July 1, 2005.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements would change the amount received from this tax.

If there is an increase in investment because of the changes in this bill, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would have been made with or without the abatement, then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) *Abatements:* Under current law, real property, new manufacturing equipment and new research and development equipment may qualify for property tax abatements. The abatements are available for up to ten years. Currently no new abatements can be granted after December 31, 2005, and the granting of these abatements are limited to economic revitalization areas.

This bill eliminates the December 31, 2005, deadline for abatements to be granted along with the location requirements, effectively allowing these abatements to be granted any time in the future and in any part of the municipality's jurisdiction.

*Logistical Distribution Equipment & Information Technology Equipment:* This bill also would allow abatements for new "logistical distribution equipment" and new "information technology (IT) equipment" if installed in an economic revitalization area *anywhere* in the state and at any time in the future. Current law concerning these abatements applies only to equipment installed before January 1, 2006, and only for certain counties containing I-69.

Logistical distribution equipment would consist of racks, scanners, separators, conveyors, forklifts, moving equipment, packaging equipment, sorting and picking equipment, and software.

IT equipment would include equipment and software used in the fields of information processing, office automation, telecommunication facilities and networks, informatics, network administration, software development, and fiber optics.

*Impact:* If there is an increase in development because of these changes, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements (ERAs) could also cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. In all cases, the granting of an abatement is a local decision.

The impact would also depend on the number and dollar amount of new abatements that might be granted outside an economic revitalization area and also the number granted after CY 2005 for abatements inside an economic revitalization area. The following chart shows the total abatements for the last 10 years for real and personal property.

<u>Year</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>	<u>Increase</u>
1994	\$41,790,975	\$54,579,109	\$96,370,085	
1995	42,660,544	44,913,061	87,573,605	(\$8,796,480)
1996	39,409,092	66,760,681	106,169,772	18,596,168
1997	41,483,134	49,280,601	90,763,735	(15,406,038)
1998	43,312,527	43,532,906	86,845,433	(3,918,302)
1999	47,739,446	49,989,013	97,728,459	10,883,026
2000	50,877,703	70,955,197	121,832,900	24,104,441
2001	57,247,336	94,062,035	151,309,370	29,476,471
2002	65,621,529	102,594,325	168,215,854	16,906,484
2003	59,113,642	154,181,896	213,295,539	45,079,685

The average annual increase over the last five years has been \$25.3 M.

**State Agencies Affected:** Department of Natural Resources; Fair Board.

**Local Agencies Affected:** County auditors.

**Information Sources:** Local Government Database.

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